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C O N F I D E N T I A L SECTION 01 OF 02 ABUJA 002547

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TREASURY FOR DAN PETERS
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TAGS: EPET ECON PGOV EINV ASEC NI
SUBJECT: SHELL TELLS THE PRESIDENT DELTA REPAIRS WILL BE
SLOW

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Classified By: AMBASSADOR JOHN CAMPBELL FOR REASONS 1.4 A, B, and D

¶1. (C) Summary: Shell has halted attempts to restore production in the Western Delta due to continued security considerations. In a September 25 meeting, President Obasanjo told Shell he was willing to acknowledge the importance of security up front. He otherwise appeared poorly briefed on Shell's issues and was unaware, for example, that Shell did not intend to voluntarily give up concessions in Ogoniland and that $250 million was still owing to Shell under the 2005 MOU despite his orders to pay it. Shell was concerned that the GON was intending to come up with less than half of its owed investment under the 2006 MOU, which would seriously affect future production and power generation projects. In general, Shell was concerned that weapons were pouring into the Delta region ahead of the elections, to much greater extent than was the case in 2003. End Summary.

¶2. (C) Shell Regional Executive V.P Ann Pickard, Neterlands-based Board Member and executive Director for Exploration and Production Malcolm Brinded, and Shell Nigeria Managing Director and chairman, Basil Omiyi met with the Ambassador on September 25 following their meeting with President Obasanjo. Somewhat in contrast to earlier meetings, the President acknowledged the urgency of the problems in the Niger Delta especially the security situation. The president planned to call in the three governors and someone acting as a liaison with militant leader Government Ekpenpolo (Tom Polo) to discuss further steps to address the situation. In the meantime, Shell told the President that despite having 500,000 barrels per day (bpd) shut down, they were not prepared to re-enter the Western Delta. The company attempted to begin re-entry two months ago, and found the damage worse than expected. About 450 kilometers of flowlines were damaged, and Shell estimated a repair cost of about $200 million. The militants continued to tell Shell they were not to start repairs and the death of a Shell employee taken hostage in August confirmed their decision halt all activity in the area, although thousands of employees were on hold awaiting a return to work.

¶3. (C) On other issues, the President seemed less well briefed. The Petroleum Ministry had announced that it was revoking some of Shell's undeveloped oil blocks in Ogoniland. The President indicated that he understood that Shell had voluntarily agreed to give up the blocks. On the contrary,

Shell said, they had spent $40 million in the area in preparation for operations, and they considered the revocation illegal, and intended to go to court if the government persisted in the planned revocation. They characterized this reversal of a legal contract highly unusual in their experience. Shell officials said they believed that Tony Chukukwe was behind the move to revoke the oil blocks and that the Chinese were angling for the blocks. Further, Shell was still owed $250 million from the 2005 MOU for a one gigawatt power project undertaken at the behest of the GON with promised reimbursement. The President had promised earlier this summer the company would be reimbursed by September and the previous Finance Minister had acknowledged the debt. Some extra money reportedly was allocated to NNPC from the Excess Crude Acccount, possibly for this purpose. The Minister of Finance and NNPC Director Kupulokon, who were present at the meeting, then engaged in a wrangle over who was reponsible for the debt in the presence of the President and Shell, and the new Finance Minister appeared to be entirely unaware of the issue. Other oil companies also were having the GON renege on promises to share the capital costs of specific projects.

¶4. (C) Of even greater concern to Shell was limited GON financing for developing new projects going forward. For 2006, the Shell MOU covered projects for which the GON share was about $7 billion and $5.5 billion of that was already underway, but now they were hearing that the GON would pony up only $2-3 billion. The impact of the foregone investment would be 500-700,000 bpd of lower production in 2-3 three years time. The lack of investment also would also seriously impact Nigeria's plan to ramp up LNG production, again lowering projected future production and thus revenue considerably.

¶5. (C) Finally, the Ambassador asked how Shell viewed the current sitution in the Delta developing. Pickard said her greatest concern was that they were seeing lots of weapons flowing into the Delta. Some were coming in from outside and

some were coming from official Nigerian arsenals. The quanitity of incoming weapons was a clearly far greater than was the case in the last pre-election/election season in 2002-2003.

¶6. (C) Comment: Shell's information highlights the fact that the Delta remains extremely volatile despite the absence of kidnappings or attacks on oil facilities in the last few weeks. It is still not safe for Shell to return to many work sites and local illicit arsenals are growing. The meeting with the President was a further indication that the information flow to the President and among key players in the government is probably deteriorating as the election season approaches. Oil companies constantly complain about the lack of GON unwillingness to fund more robust development, so in a sense that is nothing new, except it now appears the GON is pulling back from even its agreed upon levels of finance. The reasons why are not clear, but may be linked to the uncertain political future. The impact, however, is certain: future oil and gas production that is well below its reasonable potential.
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